MOODY'S INVESTORS SERVICE

CREDIT OPINION
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New Issue

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Contacts

James Hobbs 214-979-6844
AVP-Analyst
james.hobbs@moodys.com

Henrietta Chang 312-706-9960
VP-Sr Credit Officer
henrietta.chang@moodys.com

Kansas City, MO, Sewer Enterprise

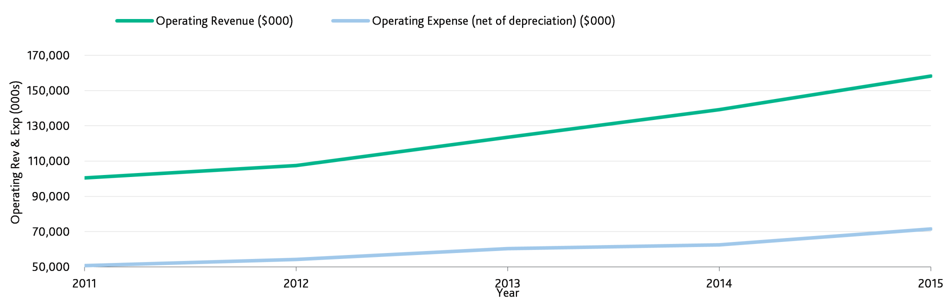
New Issue - Moody's Assigns Aa2 and stable outlook to City of Kansas City's, MO, Sewer Revenue Bonds Series 2016A

Summary Rating Rationale

Moody's Investors Service has assigned a Aa2 rating to the City of Kansas City's, MO, $187.6 million Sanitary Sewer System Improvement and Refunding Revenue Bonds, Series 2016A. At the same time we affirm the Aa2 rating on $283 million in parity junior lien sewer revenue debt outstanding. The outlook is stable.

The Aa2 rating reflects the system's strong asset life; large and diverse customer base and service area; and solid financial performance and debt service coverage which is supported by annual rate increases. The rating also incorporates strong management practices and adequate legal provisions for the bonds, yet also reflects the need for additional debt as the system works through a significant consent decree-driven capital program.

Exhibit 1
Accelerated Revenue Growth Driven by Rate Increases



Source: Audited Financial Statements

Credit Strengths

» Large and diverse customer base and service area

» Annual rate increases

» Improving financial performance and debt service coverage

» Declining debt structure

Credit Challenges

» Additional borrowing plans as system works through large consent decree

» Scheduled loss of largest wholesale customer

» Below average resident wealth levels

Rating Outlook

The stable outlook reflects the system's large and stable customer base and service area despite the loss of a significant customer, as well as our belief that improving financial metrics will remain stable, bolstered by continued annual rate increases.

Factors that Could Lead to an Upgrade

» Sustained improvement in debt service coverage and liquidity

» Decline of system debt profile

Factors that Could Lead to a Downgrade

» Poor financial performance leading to decline in reserves

» Trend of declining debt service coverage

» Significant increase in debt profile

Key Indicators

Exhibit 2

System Characteristics					
Asset Condition	38 years				
System Size - O&M (in 000s)	71,588				
Service Area Wealth: MFI % of US median	88.6%				
Legal Provisions					
Rate Covenant (x)	1.10				
Debt Service Reserve Requirement	Springing				
Financial Strength					
	2011	2012	2013	2014	2015
Operating Revenue ($000)	100,487	107,541	123,522	139,231	158,251
Operating Expense (net of depreciation) ($000)	50,804	54,253	60,413	62,525	71,587
Long Term Debt ($000)	222,233	301,603	359,051	344,281	324,082
Net Revenues Available for Debt Service	49683	53,288	63,108	76,705	86,663
Annual Debt Service Coverage (x)	2.29	2.35	2.34	2.44	2.77
Cash on Hand	48 days	93 days	112 days	94 days	57 days
Debt to Operating Revenues (x)	2.0x	2.6x	2.7x	2.3x	1.9x

Source: Audited Financial Statements

Detailed Rating Considerations

Service Area and System Characteristics: Large and Diverse Customer Base and Service Area

We believe the large and diverse customer base, coupled with a strong asset life, is a credit positive for the large sewer system. The system is large, providing sewage collection and treatment to roughly 164,000 retail customers in and around the city (Kansas City GO rated Aa2), as well as 28 smaller utilities through wastewater inter-jurisdictional agreements. The system consists of 40 wastewater pumping stations, 15 flood pumping stations, 6 treatment facilities, and 3 effluent pumping stations. The customer base remains relatively diverse with residential customers totaling 147,475 (Accounting for roughly 31% of treated volume), commercial and industrial customers totaling 16,585 (40% of treated volume), and 28 wholesale customers in 2015 (29% of treated volume). Over the last five years, the total number of residential and commercial customers have steadily grown on an annual basis averaging 1.4% and 4.6% growth respectively. The system's top 10 customers account for a notable 23.7% of the system's total revenues, including six wholesale municipal customers. The system's largest customer, Johnson County, is considering expanding its Tomahawk treatment facility to treat all of the flow going to that facility. Currently, Kansas City provides treatment services for half of the flow going to the Tomahawk treatment facility. Johnson County's contract is set to expire in 2016, yet is expected to be renewed until the new treatment facility is fully functional. Until then, 100% of the county's flow is expected to be treated in the system for the next several years. Management has taken steps, through rate increases and conservative budget assumptions, to prepare for the eventual loss of the system's largest customer. In fiscal 2014, Johnson County accounted for 10% of treated volume and also roughly 10% of customer revenues. Officials are hopeful the loss will be offset somewhat by a modestly growing customer base and rate increases.

Operations at employers within the service area remain stable. Major corporations such as Ford Motor Company (Baa3/ Stable), Cerner Corporation, and Burns & McDonnell have announced expansion of operations at existing facilities. The area is also home to several large hospitals, including HCA Midwest Health Systems, Saint Luke's Health System, The University of Kansas Hospital, Children's Mercy Hospitals and Clinic, as well as Truman Medical Centers. Federal Government as well as State, County, and Local Government also make up a significant employment base for the area providing stable institutional presence.

The Kansas City metro area economy is expected to strengthen in the short term as temporary drags on expansion fade. Strong job growth in professional and business services will help to mitigate cutbacks in telecommunications, and expansion in the healthcare industry will lend additional support. The American Community Survey data indicates below average wealth levels for the City of Kansas City, evidenced by a per capita income and median family income of 94% and 88.6% of national levels, respectively. The unemployment rate for the city (5.0%) in October 2015 was slightly above average when compared to that of the state (4.3%) and nation (4.8%) for the same time period.

Debt Service Coverage and Liquidity: Strong Management Practices and Rate Increases Lead to Solid Financial Performance

Strong management practices and annual rate increases have resulted in improving financial metrics and debt service coverage over the last several years, a trend that is expected to continue in the near term. A significant driver behind the improved financial performance is sizeable annual rate increases. Over the last five years wastewater rates have been increased 13% to 17% annually. For fiscal 2015 (Year-end April 30), the system operating revenues totaled $158.3 million and net revenues of the system totaled $86.7 million providing 2.77 times coverage of annual debt service requirements (Senior and junior lien bonds). The net revenues of the system provide a solid 2.27 times coverage of maximum annual debt service (MADS) of $38.0 million which is expected in 2017.

Year-to-date fiscal 2016 financial performance remains stable. Officials project net revenues of $79 million which would provide 2.6 times coverage of all debt service requirements. Management's current plan assumes 13% annual rate increases through 2020, with 6% to 8% annual increases beyond that date. We believe management of the city's sewer system will remain strong, demonstrated by appropriate and timely rate setting measures, prudent and conservative budgeting and forecasting of revenues, as well as maintenance of multiyear planning. Current stable system performance is in part the result of solid management practices which we anticipate will continue in the near-term.

LIQUIDITY

Solid financial performance and rate increases has improved system liquidity. Unrestricted cash and investments of the Sewer Fund are modest, but the system retains substantial additional reserves considered restricted as part of the city's pooled and non-pooled investment portfolio. At fiscal year-end 2015, unrestricted cash and investments in the Sewer Fund totaled a modest $12.9 million or 57 days cash on hand. An additional $199.5 million in the city's pooled and non-pooled investment portfolio increases the system's days of cash on hand to an ample 874 days. The additional liquidity will be used to partially finance future capital improvements associated with the system's consent decree, but is expected to remain strong.

Debt and Legal Covenants

DEBT STRUCTURE

Despite the need for additional borrowing, the sewer system's debt profile will remain manageable in the near-term. Post-sale the system will have approximately $454 million in sewer revenue debt outstanding, including the current sale and senior lien bonds. The debt ratio in 2015 was modest and manageable at 29.6%. We expect the system's debt ratio to increase with new debt issuances. Debt to operating revenues is a moderate 2.68 times when incorporating the new issuance. Principal payout of debt outstanding is modest with 54% retired in ten years and all debt maturing by 2040. Favorably the debt service schedule is descending on an annual basis which should allow for strategic layering in of new debt. Officials continue to evaluate capital needs and funding sources for the future as they relate to the system's consent decree. The system is also in its sixth year of managing through a $4.5 billion (current dollars) consent decree which is primarily related to sanitary sewer and combined sewer overflows. The consent decree timeline runs through 2035 and future projects are expected to be funded mainly by cash and debt issuance.

DEBT-RELATED DERIVATIVES

The system has no variable rate debt and is not party to any interest rate swaps or other derivative agreements associated with the city's sewer revenue security.

LEGAL PROVISIONS

The legal provisions for the bonds are adequate. Though there is not currently a funded debt service reserve, the springing debt service reserve is triggered by a 1.3 times coverage threshold, which is higher than the system's 1.10 times rate covenant. The additional bonds test is also 1.10 times for all bonds. The current issuance will include a "springing" debt service reserve component similar to previously issued Series 2011A and Series 2012A Bonds. The city is obligated to fund the debt service reserve equivalent to annual debt service within 24 months of falling below the trigger with level monthly contributions. Funding of a springing reserve fund has not been required to date.

Management and Governance

Management of the city's sewer system is strong . Management practices are formalized and adhered to which include a strategic business plan, long-term financial forecasting, and maintenance of a Renewal and Replacement Fund, which currently totals $18 million. Management initiatives also include a quarterly customer service survey, as well as improvements to billing and maintenance technology and in customer communications.

Legal Security

The bonds are payable on a subordinate lien basis from the income and revenue derived by the city from the operation of the Sanitary Sewer System, after payments of operating expenses, maintenance and repair charges and certain other current expenses. The majority of the system's debt is parity subordinate lien; the senior lien is closed.

Use of Proceeds

The majority of the proceeds from the sale of bonds will be used to update and upgrade existing system infrastructure while a smaller portion will be used to refund certain maturities of outstanding debt for debt service savings.

Obligor Profile

The city's Water Services Department is responsible for the planning and construction of wastewater collection system piping, pump stations, and treatment facilities serving Kansas City and the surrounding area. It is also responsible for all of the wastewater collection and treatment services and compliance with all environmental regulations. The system serves an area of about 320 square miles and roughly 164,000 customers on a retail basis and 28 surrounding communities on a contractual basis.

Methodology

The principal methodology used in this rating was US Municipal Utility Revenue Debt published in December 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Ratings

Exhibit 3

KANSAS CITY (CITY OF) MO SEWER ENTERPRISE

Issue	Rating
Sanitary Sewer System Improvement and Refunding Revenue Bonds Series 2016A	Aa2
Rating Type	Underlying LT
Sale Amount	$187,620,000
Expected Sale Date	01/16/2016
Rating Description	Revenue: Government Enterprise

Source: Moody's Investors Service

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Contacts

James Hobbs 214-979-6844
AVP-Analyst
james.hobbs@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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